

CITY OF FEDERAL WAY
King County, Washington
January 1, 1992 Through December 31, 1992

Schedule Of Findings

1. The City Should Not Expend Block Grant Moneys Prior To The Funding Period

On February 1, 1991, the city entered into contracts with the King County Multi-Service Center and Federal Way Youth Services. These contracts provided for the payment of \$55,000 and \$75,060, respectively, for human service projects. These projects were partially funded by HUD block grant moneys under Project No. B-91-MC-53-015. The HUD share of these was \$35,000 and \$4,650, respectively.

The block grant agreement specified a program start date of July 1, 1991. As a result, the city expended \$17,500 and \$4,650 of grant moneys on the two programs prior to the start date. However, since the entire federal share was obligated prior to the start date, it is necessary to question \$35,000 and \$4,650.

These 1991 expenditures were originally paid through the General Fund. The HUD portion was not transferred to the Block Grant Fund and claimed for reimbursement until May 1992. Appropriate city personnel were apparently unaware that these projects were partially HUD-funded. In addition to the questioned costs noted above, this condition resulted in a \$39,650 understatement of the Community Development Block Grant expenditures in the 1991 Schedule of Federal Financial Assistance.

Title 24, Subpart C, Section 570.200(a), of the *Code of Federal Regulations* states in part:

(5) Cost principles . . . pre-agreement costs are limited to those costs described in Section 570.200(h).

These costs were obligated under public service programs which are not among the costs described in section 570.200(h)."

We recommend the city refrain from charging to a grant any costs obligated prior to the beginning of the funding period unless specifically allowed as appropriate pre-agreement costs.

We further recommend that the city confer with HUD regarding the disposition of these questioned costs.

2. The City Should Establish Administrative Controls To Ensure Subrecipient Federal Audit Requirements Are Met

The city administers a significant portion of its Community Development Block Grant program through subrecipients. Administrative controls in place during 1992 were inadequate to ensure subrecipients who receive at least \$25,000 in federal financial assistance from the City of Federal Way meet federal audit requirements. Specifically, we noted that contracts made with subrecipients did not contain any provisions that require the subrecipients to comply with audit requirements.

OMB Circular A-128, *Audits of State and Local Governments* requires that state and local governments that receive federal financial assistance and provide \$25,000 or more of it in a fiscal year to a subrecipient shall:

- a. Determine whether State or local subrecipients have met the audit requirements of this Circular and whether subrecipients covered by Circular A-110 "Uniform Requirements For Grants To Universities, Hospitals and Other Nonprofit Organizations" have met that requirement.
- b. determine whether the subrecipient spent Federal assistance funds provided in accordance with applicable laws and regulations. This may be accomplished by reviewing an audit of the subrecipient made in accordance with this Circular, A-110, or through other means (e.g., program reviews) if the subrecipient has not yet had such an audit . . .

Note: OMB Circular A-133, *Audits of Institutions of Higher Education and Other Non-profit Institutions*, issued March 16, 1990, supersedes the references to OMB Circular A-110 cited above.

We were unable to obtain any evidence that these requirements were communicated to the subrecipients or that the city had a system in place to monitor compliance. It appears the city was unaware of its responsibilities to monitor the audits of its subrecipients.

Without fiscal and compliance audits performed in accordance with OMB Circulars A-128 or A-133, city officials have limited assurance subrecipients expended federal funds in accordance with federal laws.

We recommend that the city establish the administrative controls ensuring subrecipient federal audit requirements are met.